



Arena REIT

FY17 Interim Results

Strong earnings growth and distribution upgrade

20 February 2017



Agenda



Highlights	3
Financial Results	7
Portfolio Update	12
Summary and Outlook	24
Questions	28
Directory	29
Appendices	30
Important notice	42



Highlights

Bryce Mitchelson, Managing Director



Financial highlights

Strong first half result – statutory net profit \$59.6 million

<p>Net Operating Profit</p> <p>\$14.2m</p> <p>+13%*</p>	<p>Earnings per security (EPS) (Operating)</p> <p>6.11 cents</p> <p>+11%*</p>	<p>Distributions per security (DPS)</p> <p>5.85 cents</p> <p>+9%*</p>
<p>Total Assets</p> <p>\$584m</p> <p>+14%[^]</p>	<p>Net Asset Value per security</p> <p>\$1.74</p> <p>+13%[^]</p>	<p>Gearing</p> <p>27.8%</p> <p>+100bps[^]</p>

Highlights

- Long-term predictable and growing rental cash flow
- Accretion from FY16 and 1H FY17 development completions
- Stable cost base and scalable business model
- Efficient allocation of capital to fund growth



* Growth on prior corresponding period.
[^] Growth since 30 June 2016.

Portfolio highlights

Improvement in all key portfolio metrics during 1H FY17

<p>Average rent review increase</p> <p>4.9%*</p> <p>54% of income reviewed*</p>	<p>WALE</p> <p>10.6 years</p> <p>+0.9yrs ^</p>	<p>Lease renewal rate</p> <p>100%</p> <p>7 of 7 options renewed*</p>
<p>Portfolio value</p> <p>\$563m</p> <p>+15% ^</p>	<p>Portfolio weighted average passing yield</p> <p>6.9%</p> <p>-40bps ^</p>	<p>Development completions</p> <p>\$18.2m#</p> <p>7 projects ^</p>

Highlights

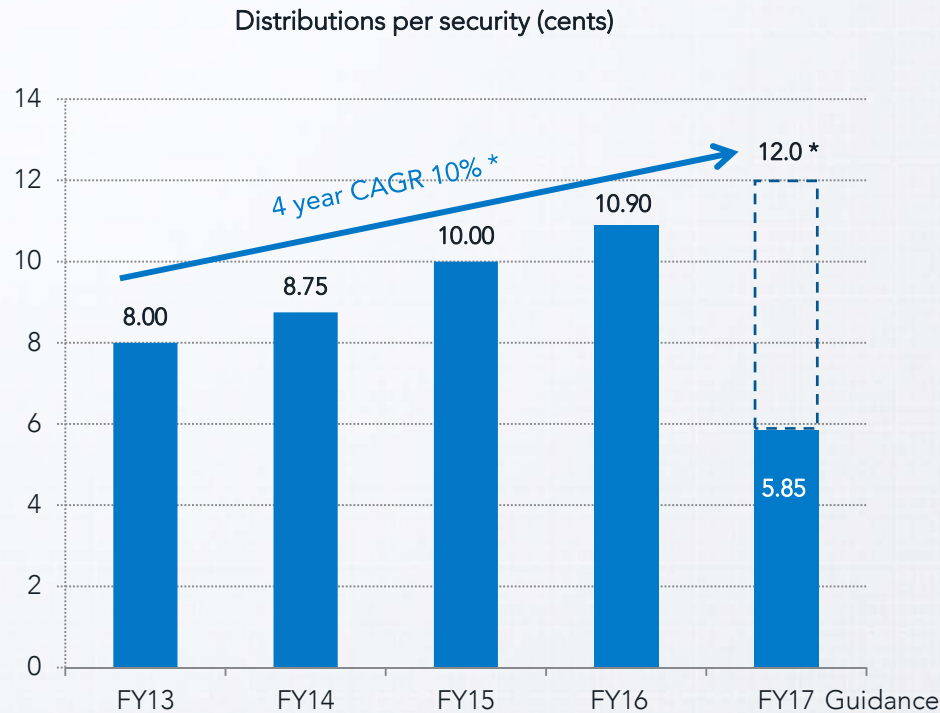
- All key metrics improved through active portfolio management initiatives
- Increase in portfolio value driven by strong revaluation uplift, acquisitions and development capex
- Seven ELC's completed and leases commenced, including five ELC's alongside the State of Victoria's New Schools PPP program



* In six months to 31 December 2016.
 ^ Change since 30 June 2016.
 # Total cost of projects completed in half-year.

Delivering on investment objectives

FY17 DPS guidance upgrade to 12.0 cents*



INVESTMENT OBJECTIVE
Generating attractive and predictable distributions with earnings growth prospects over the medium to long term

- FY17 DPS guidance upgraded to 12.0 cents
- Increase of 10% over FY16
- Four year DPS CAGR 10%*
- FY17 distribution yield 6.0%*



* FY17 Distribution guidance is estimated on a status quo basis assuming no new acquisitions or disposals, developments in progress are completed in line with forecast assumptions, and tenants comply with their lease obligations. FY17 distribution yield, FY17 distribution per security growth and four year DPS CAGR are all based on upgraded FY17 distribution guidance. FY17 distribution yield calculated on a closing price on 17 February 2017 of \$2.01 per security.



Financial Results

Gareth Winter, Chief Financial Officer



Financial performance

Efficient delivery of 13% growth in net operating profit

	1H FY17	1H FY16	Change
	(\$'000)	(\$'000)	\$'000)
Rental income	18,047	16,284	1,763
Other income	337	312	25
Total operating income	18,384	16,596	1,788
Direct property expenses	(449)	(439)	10
Operating expenses	(1,635)	(1,459)	176
Finance costs	(2,078)	(2,053)	25
Net operating profit	14,222	12,645	1,577
Statutory net profit	59,600	41,444	18,156
Earnings per security (EPS) (cents)*	6.11	5.52	0.59
Distribution per security (DPS) (cents)	5.85	5.35	0.50

Highlights

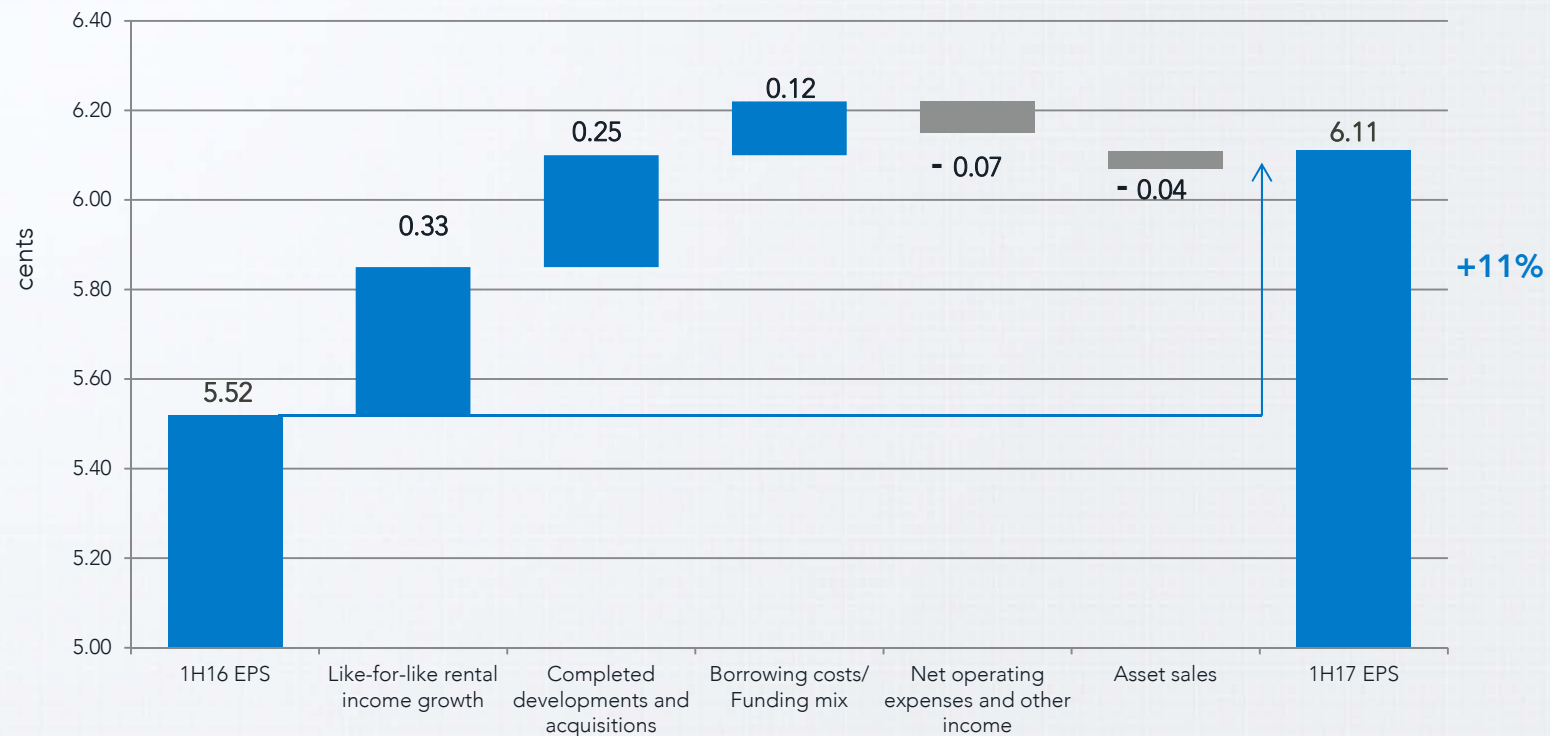
- Income growth from:
 - structured annual rental growth and market reviews
 - renegotiation of leases
 - acquisitions and developments completed in FY16 and 1H17
- Operating costs relatively stable, with investment in additional resources to accommodate growth
- Finance costs stable despite higher borrowings, as a result of savings from the debt refinance in Dec 2015 and lower average interest rates
- Valuation uplift key driver of increase in statutory net profit



* Earnings per security (EPS) calculated as Net Operating Profit over weighted average number of units on issue.

Contributors to earnings growth

Portfolio strategy and capital management underpin EPS growth of 11%



Financial position

Growth in net assets

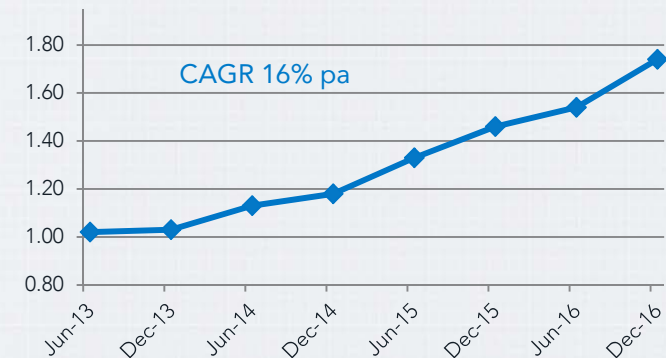
	31 Dec 2016 (\$m)	30 Jun 2016 (\$m)	Change (%)
Total assets	584.1	514.0	+14
Investment properties	563.2	491.4	+15
Borrowings	162.5	138.0	+18
Net assets	407.0	357.5	+14
Securities on issue	233.6	232.0	+1
Net Asset Value per security	\$1.74	\$1.54	+13
Gearing	27.8%	26.8%	+100bps

Highlights

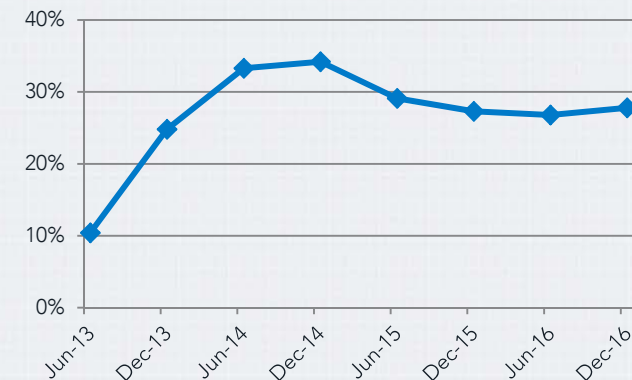
- 13% increase in NAV per security
- Efficient use of capital to deliver investment returns



NAV per security (\$)



Gearing (%)



Capital management

Additional capacity secured to fund future growth

	31 Dec 2016 (\$m)	30 Jun 2016 (\$m)	Change
Borrowings	162.5	138.0	+18%
Borrowing facility limit	205.0*	175.0	+17%
Gearing	27.8%	26.8%	+100bps
Average facility term	3.0yrs	3.5yrs	-0.5yrs
Weighted average cost of debt	3.75%*	3.85%	-10bps
Interest cover ratio	6.2x	6.2x	-
Interest rate hedging cover	71%	72%	-100bps
Weighted average hedge term	4.0yrs	4.0yrs	-
Weighted average swap rate	2.37%	2.48%	-11bps

Highlights

- Borrowing facility increased by \$30 million in January 2017 to fund future development capex commitments and new opportunities
- DRP in operation
- Weighted average cost of debt 3.75% pa
- Hedge cover maintained in preferred range – 71% at 31 Dec 2016



* Includes \$30 million facility increase in January 2017.



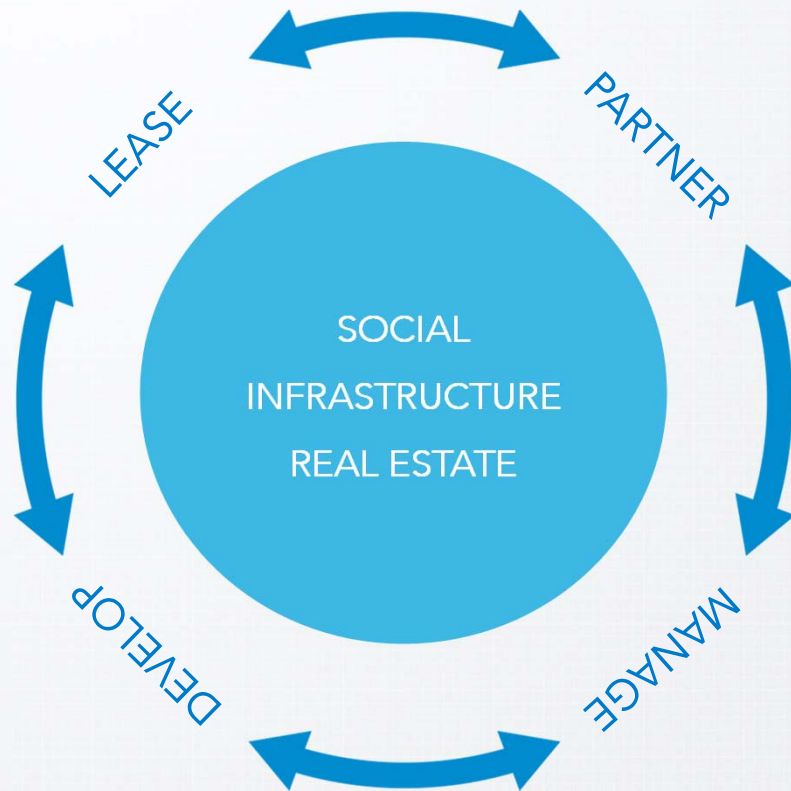
Portfolio Update

Rob de Vos, Head of Property



Portfolio strategy

Value-adding business model focussed on specialised real estate



Preferred property characteristics	Arena portfolio
Relatively long lease terms	WALE 10.6 years
Premises that have strategic importance to tenant operations	97% purpose built assets; tenant goodwill linked to location
High credit quality tenants	Tenant profile: - 21% listed on ASX - 42% not for profit - 37% private operator
Tenants responsible for all, or substantially all, of the statutory and operating outgoings and costs including land tax, insurance, electricity, repairs and maintenance, including of a capital or structural nature	Predominantly triple net leases, where tenant is responsible for all of the statutory and operating outgoings and costs including land tax, insurance, electricity, repairs and maintenance, including of a capital or structural nature
Reversionary capital value risk can be effectively managed	Predominantly five year notice periods for lease extension options



Portfolio highlights

Active six months builds solid foundation for FY17 performance



Active portfolio initiatives to de-risk income and access growth

- 100% of lease options renewed
- 1H FY17 average rent increase of 4.9% (5.8% on market reviews)
- Seven ELC developments completed ahead of schedule
- Five new projects added to development pipeline

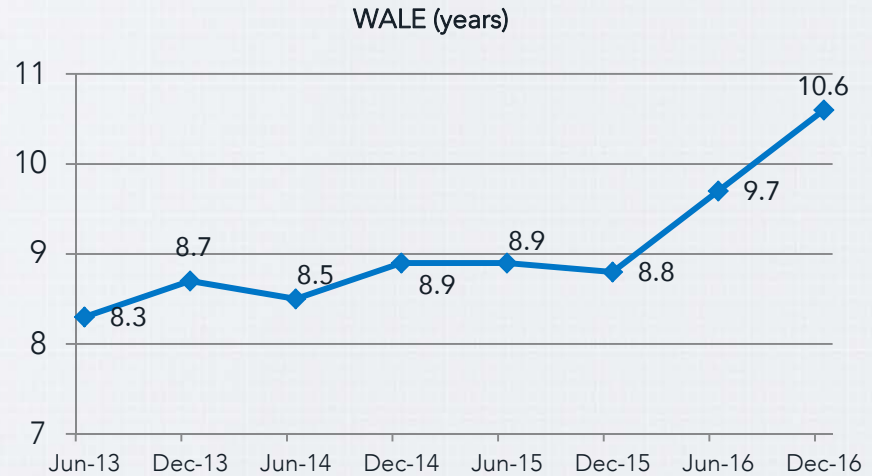
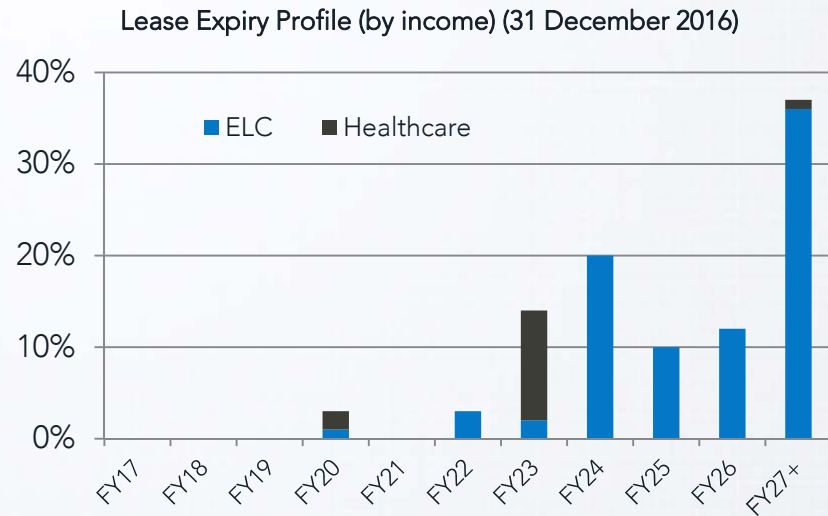
Key portfolio metrics enhanced

- 100% occupancy; <6% of income to expire before June 2022
- Weighted average lease expiry (WALE) extended to 10.6 years
- Valuation uplift 8.4% – weighted average passing yield 6.9%
- ELC net rent to gross operating revenue ratio stable at 10.3%



Lease expiry profile

Weighted average lease expiry (WALE) extended to 10.6 years



Highlights

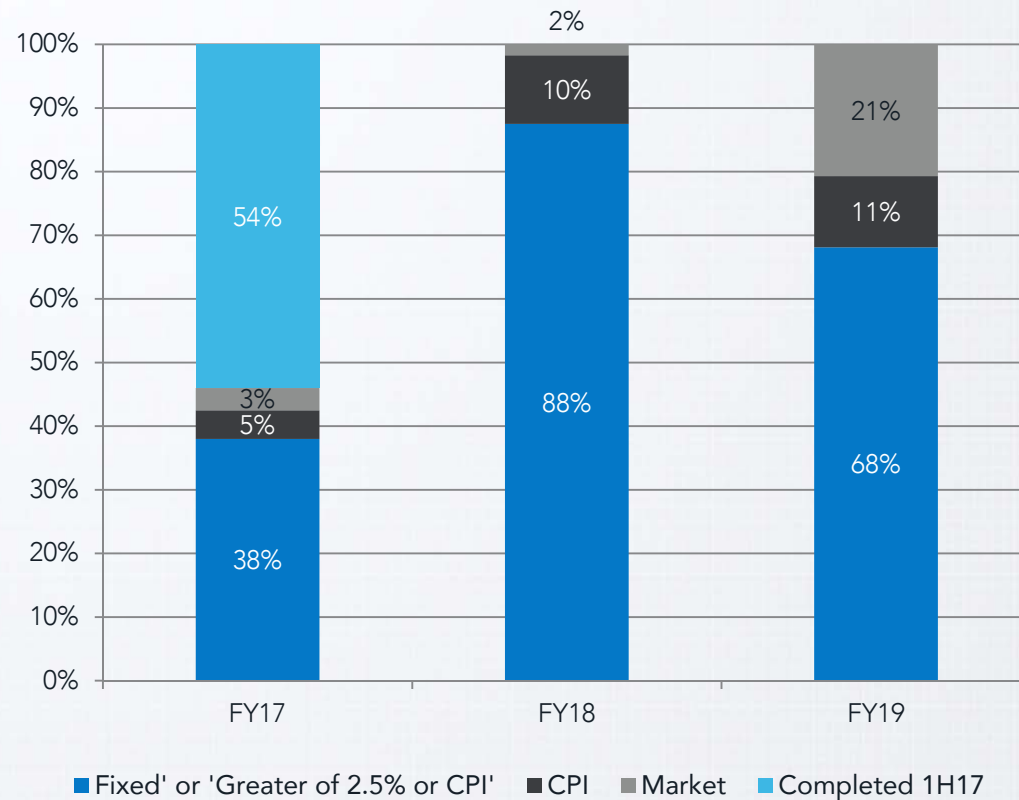
- Seven lease options with FY22 expiry renewed for further five years (100% renewal rate)
- Seven ELC developments completed with average lease term of 23.6 years
- 12 leases renegotiated for new 20 year terms
- Only 6% of portfolio income subject to expiry prior to June 2022



Rent review profile

1H FY17 average rent increase of 4.9%

Rent review profile (by income)



Highlights

- 54% of portfolio rental income reviewed in 1H FY17
- 1H FY17 average rent increase of 4.9% achieved (5.8% on market reviews)
- FY19 market reviews reduce to 21% from 25% following renegotiation of 12 leases to market rents
- 46% of rental income to be reviewed in 2H FY17 – majority at 'Fixed' or 'Greater of 2.5% or CPI'
- ELC net rent to gross operating revenue ratio stable at 10.3%



Valuation movement

Net revaluation uplift of \$43.5 million; increase of 8.4%

Portfolio valuation

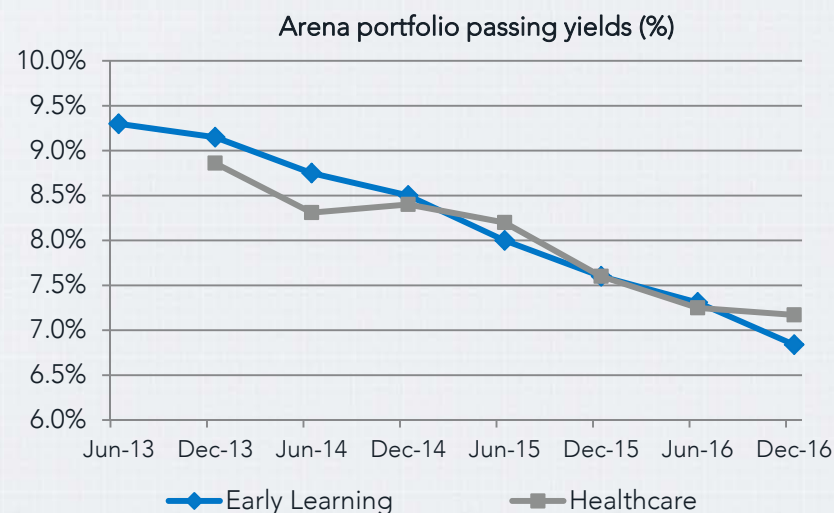
	31 Dec 2016	Movement*	
	(\$m)	(\$m)	%
Early Learning	482.5	41.0	+9.3
Healthcare	80.7	2.5	+3.2
Total Portfolio	563.2	43.5	+8.4

Highlights

- 38 properties Independently valued; 170 at Director's valuation
- 40 basis point firming in portfolio passing yield due to direct market transactions, rental growth and active portfolio initiatives

Weighted average passing yield

	31Dec 2016	Movement*
	(%)	(bps)
Early Learning	6.84	-47
Healthcare	7.17	-8
Total Portfolio	6.90	-40

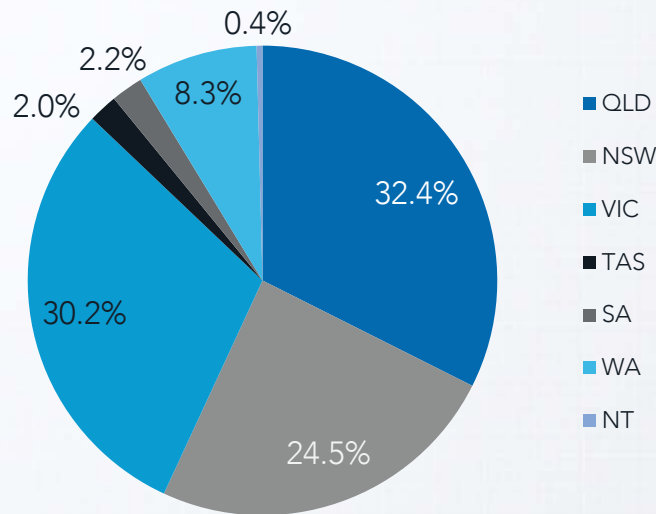


* Increase on 30 June 2016.

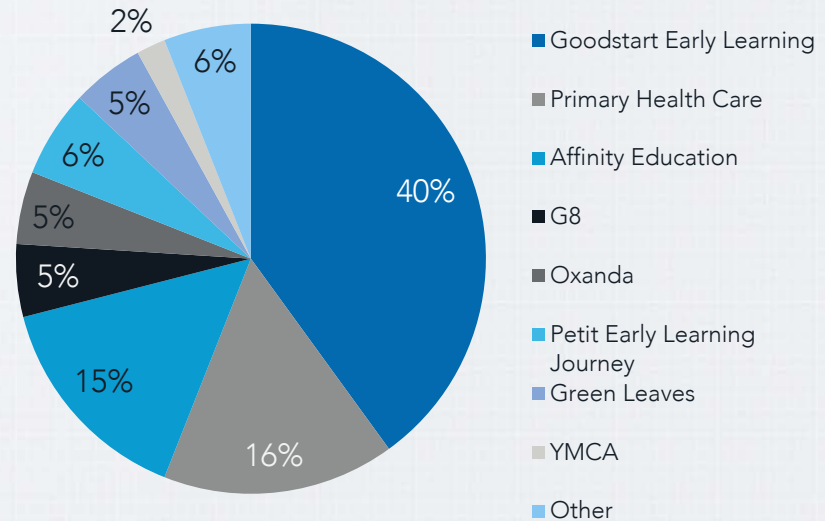
Portfolio diversification

Diversification by location and tenant enhanced

Geographic diversification (by value)



Tenant diversification (by income)



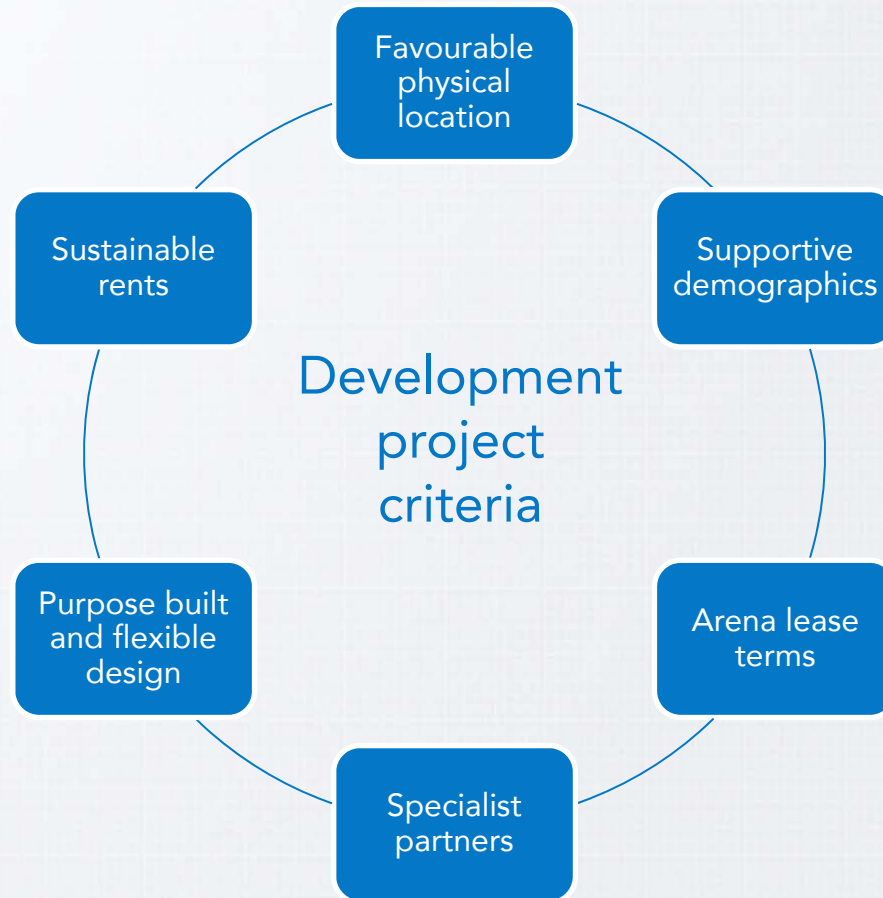
- Increased VIC exposure via developments
- FY18 development pipeline weighted to high population growth states of NSW and VIC

- Addition of YMCA to portfolio
- Diversified tenant base – exposure to top three tenants reduced from 79% to 71% since December 2015



Development project criteria aims to deliver competitive advantage

Focus on long-term operator profitability and reward for risk



Development completions in 1H FY17

Portfolio further diversified by tenant, location and ownership structure



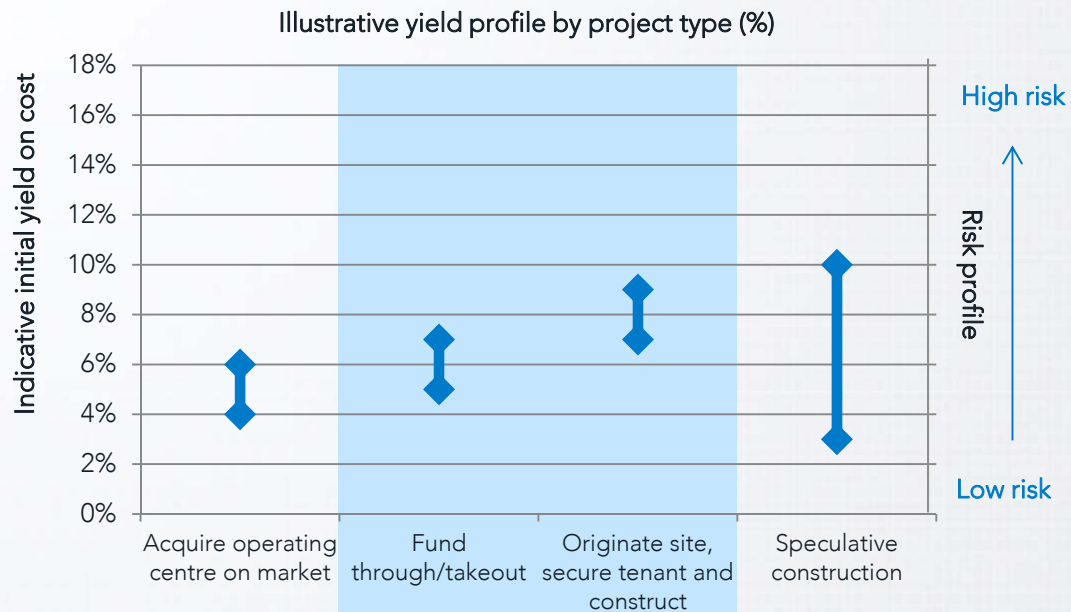
- Tranche 1 of Victorian PPP program completed
- Focus on long term sustainable rents
- Favourable physical locations and close proximity to primary schools
- Supportive demographics

	Total cost (\$m)	Initial yield on cost (%)	Lease term (yrs)	LDC places
Leasehold properties				
Heather Grove, VIC	2.5	8.5	26	104
Pakenham, VIC	2.5	8.5	26	104
Casey Central, VIC	2.5	8.5	26	104
Mernda South, VIC	2.6	8.5	26	104
Epping North, VIC	2.5	8.5	26	104
Freehold properties				
Horsham, VIC	2.9	8.6	20	100
Epsom, VIC	2.7	8.0	15	130
Total/Average	18.2	8.4	23.6	750



Development pipeline FY17 – FY18

Delivering efficient earnings growth with an acceptable level of risk

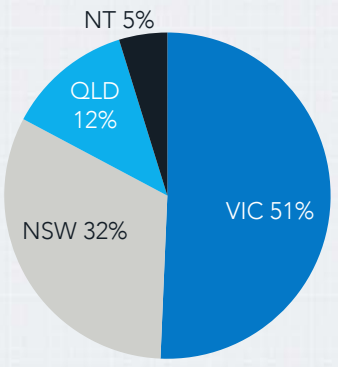


Highlights

- Tenant partnerships providing access to projects with different risk/return profiles
- One project to complete at end FY17; remainder in FY18
- Three fund through projects on initial yield of 6.4% reflects NSW locations and substantial transfer of planning and construction risk to tenant
- Total cost of \$57 million; \$30 million spent to date

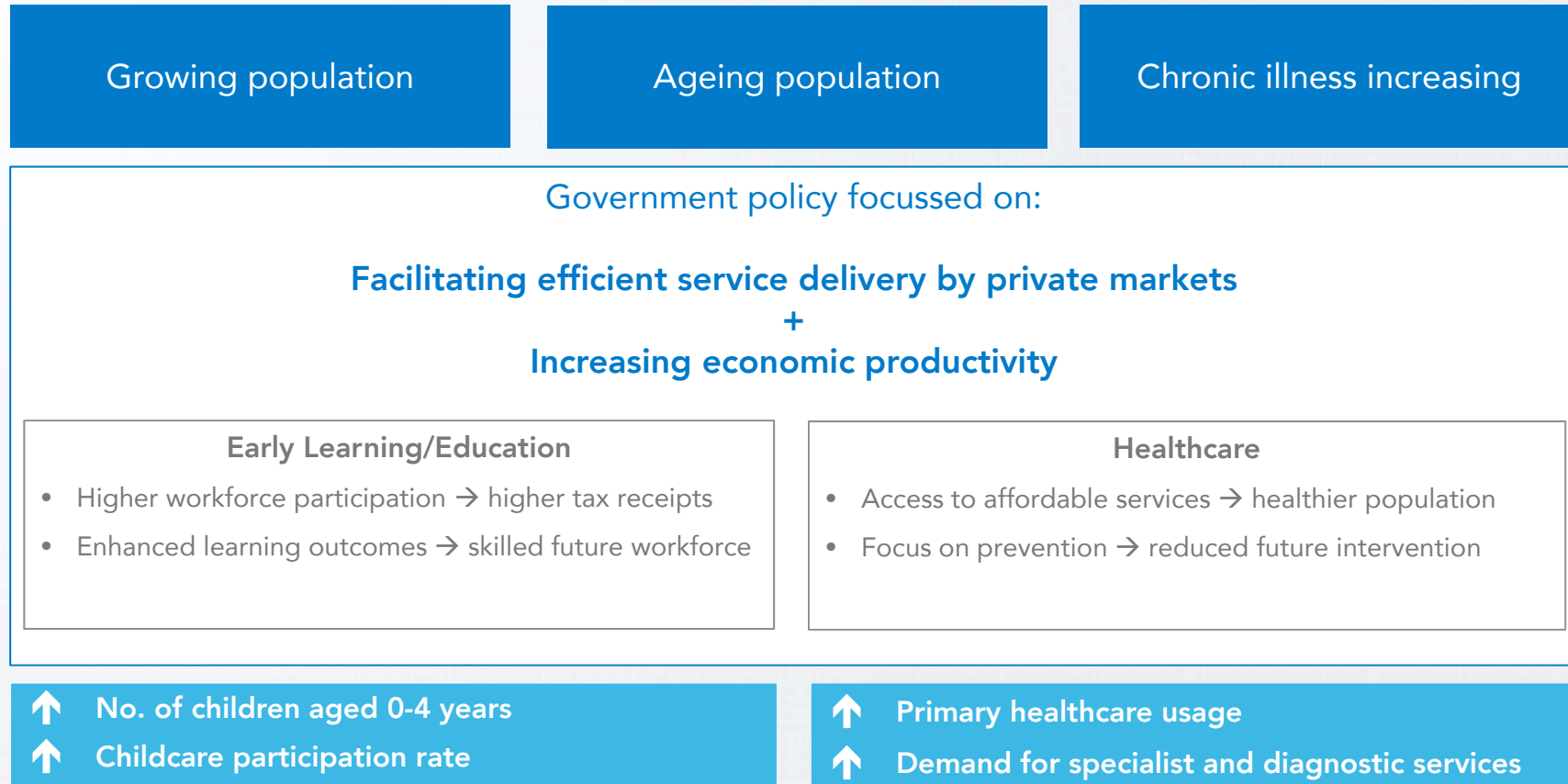
Arena pipeline			Total
No. projects	3	9	12
Total cost	\$18m	\$39m	\$57m
Initial yield on cost	6.4%	7.5%	7.1%

Development pipeline by state (by total cost)



Demand driven by positive macro themes

Demographic trends and government policy support demand for services



Market outlook

Ability to understand micro-markets is critical to identifying feasible opportunities



Early Learning

- 'Jobs for Families package' now forms part of larger Omnibus Savings and Childcare Reform Bill 2017
- If passed, additional funding of \$3 billion to sector from 1 July 2018
- Planning and construction data indicates level of new ELC supply is increasing, particularly in VIC and NSW

Healthcare

- Recent property transactions involving operators moving assets off balance sheet
- Transaction evidence suggests further firming in market yields



Summary and Outlook

Bryce Mitchelson, Managing Director



1H FY17 results summary

Active six months builds solid foundation for FY17 performance



- Rental income growth key driver of EPS growth – up 11% to 6.11 cents
- Significant valuation uplift driving 13% increase in NAV per security to \$1.74
- Active portfolio initiatives to de-risk income and access growth – WALE increased to 10.6 years
- Successful completion of seven ELC developments in first half enhancing portfolio quality and earnings
- Development pipeline replenished with five new projects added
- Additional borrowing capacity secured to fund development pipeline



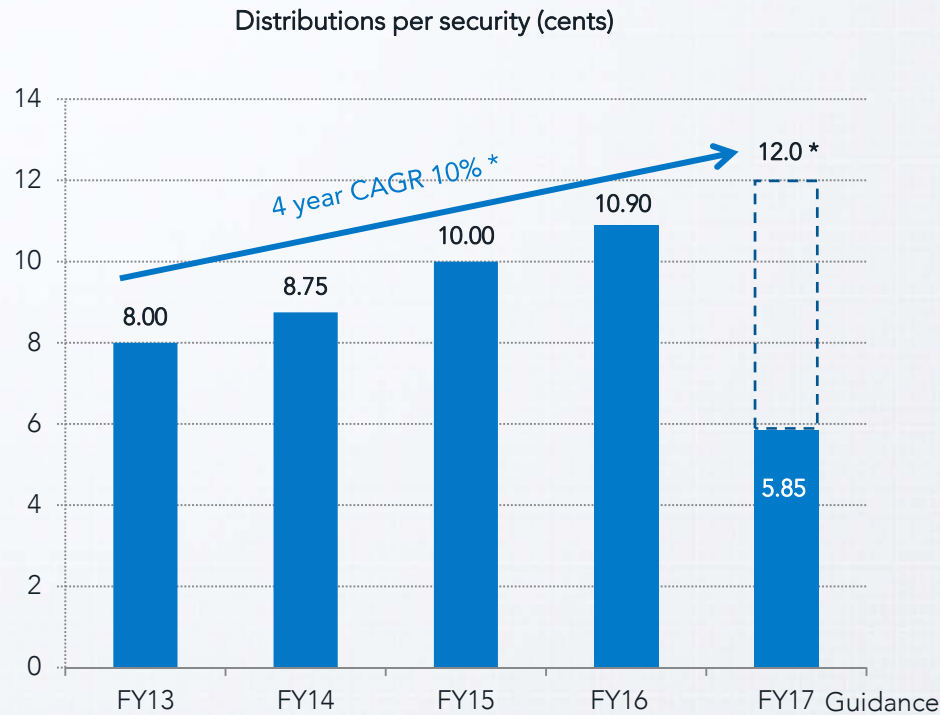
FY17 DPS guidance upgraded to 12.0 cents*

DPS compound average growth since listing 10% per annum

Highlights

Key contributors to upgrade:

- Transaction and development timing
- Renegotiation of 12 leases at market rents
- Additional development projects commenced
- Lower borrowing costs



* FY17 Distribution guidance is estimated on a status quo basis assuming no new acquisitions or disposals, developments in progress are completed in line with forecast assumptions, and tenants comply with their lease obligations.



Solid investment case

Positioned to deliver predictable and growing earnings with a scalable business model





Questions



Directory

www.arena.com.au



Bryce Mitchelson

Managing Director

+61 3 9093 9000

+61 408 275 375

bryce.mitchelson@arena.com.au



Gareth Winter

Chief Financial Officer

+61 3 9093 9000

+61 421 054 758

gareth.winter@arena.com.au



Rob de Vos

Head of Property

+61 3 9093 9000

+61 417 520 526

rob.devos@arena.com.au



Susie McPherson

Head of Investor Relations
and Marketing

+61 3 9093 9000

+61 434 604 591

susie.mcpherson@arena.com.au





Appendices



Financial performance

	1H FY17	1H FY16	Change	
	(\$'000)	(\$'000)	(\$'000)	%
Rental income	18,047	16,284	1,763	11%
Other income	337	312	25	8%
Total Operating Income	18,384	16,596	1,788	11%
Direct property expenses	(449)	(439)	10	2%
Operating expenses	(1,635)	(1,459)	176	12%
Finance costs	(2,078)	(2,053)	25	1%
Net operating profit (distributable income)	14,222	12,645	1,577	13%
<i>Non-distributable items:</i>				
Straight-line rental income	(297)	36	(333)	(925%)
Revaluation gain on investment properties	43,473	30,005	13,468	45%
Change in fair value of derivatives	2,499	(751)	3,250	433%
Amortisation of security-based payments (non-cash)	(284)	(188)	(96)	51%
Other non-cash, stapling and other transaction costs	(13)	(303)	290	96%
Statutory net profit	59,600	41,444	18,156	44%



Balance sheet

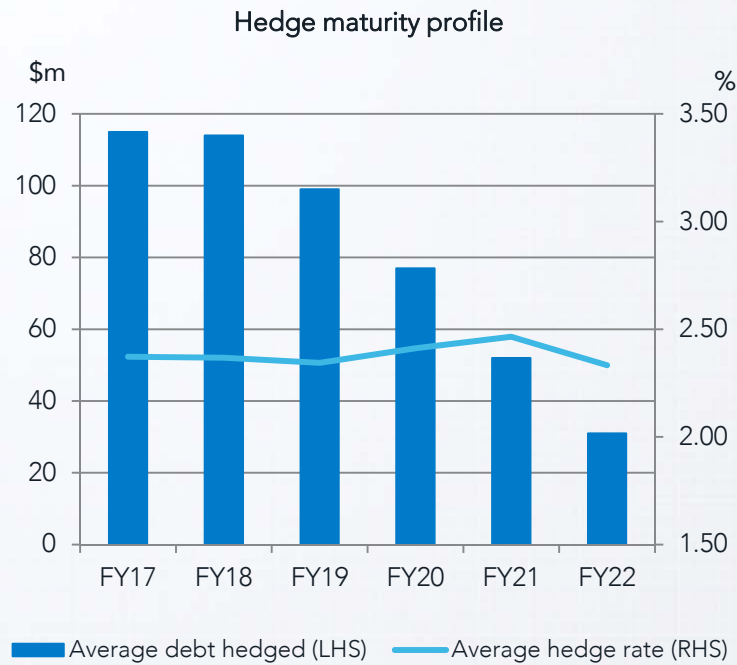
	31 Dec 16	30 Jun 16	Change	
	(\$'000)	(\$'000)	(\$'000)	%
Cash	7,928	9,446	(1,518)	(16%)
Receivables and other assets	2,189	2,250	(61)	(3%)
Investment properties	563,166	491,439	71,727	15%
Intangibles	10,816	10,816	-	-
Total assets	584,099	513,951	70,148	14%
Payables and other liabilities	14,458	15,841	(1,383)	(9%)
Borrowings	162,150	137,587	24,563	18%
Derivatives	456	3,030	(2,574)	(85%)
Total liabilities	177,064	156,458	20,606	13%
Net assets	407,035	357,493	49,542	14%
Number of securities on issue (m)	233.6	232.0	1.6	1%
Net asset value per security (\$)	1.74	1.54	0.20	13%
Gearing	27.8%	26.8%	n/a	100bps

Highlights

- Growth in assets due to:
 - \$29 million of development capex and acquisitions
 - \$43.5 million of revaluations
- Borrowing increased to fund new investment
- Securities on issue increased through DRP



Interest rate management



	31 Dec 2016	30 Jun 2016
Hedge cover	71%	72%
Weighted average hedge interest rate	2.37%	2.48%
Weighted average hedge term	4.0yrs	4.0yrs



Portfolio valuations – 31 December 2016

	Number of assets	Value (\$m)	Passing yield (%)
ELC – Independent Valuations			
Queensland	16	35.4	6.82
New South Wales	1	2.3	5.54
Western Australia	11	22.9	7.19
Victoria	4	13.6	6.77
Tasmania	3	5.5	6.84
South Australia	3	6.8	6.87
Total	38	86.5	6.88
ELC – Freehold – Director Valuations			
Queensland	55	139.0	7.26
New South Wales	25	51.4	6.47
Western Australia	12	25.3	7.23
Victoria	49	125.5	6.36
Tasmania	3	5.8	7.55
South Australia	2	5.6	6.85
Development sites	12	30.5	-
Total	158	383.1	6.82
ELC – Leasehold – Director Valuations			
Total	5	12.9	8.46
Total ELC portfolio	201	482.5	6.84
Healthcare – Director Valuations			
Total Healthcare portfolio	7	80.7	7.17
Total portfolio	208	563.2	6.90



Portfolio composition and movement

Portfolio movements (30 June 2016 to 31 December 2016)



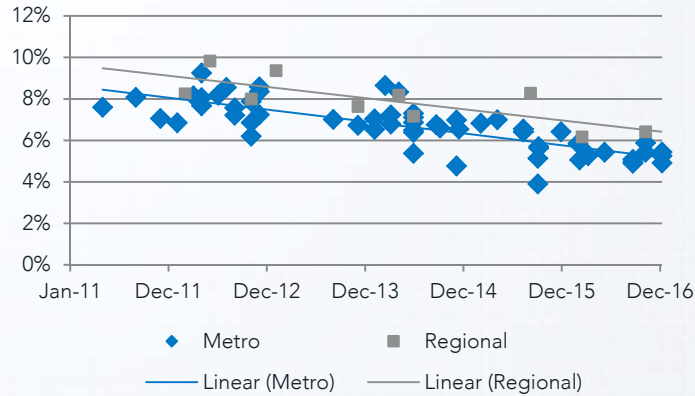
ELC portfolio metrics

	31 Dec 2016	30 Jun 2016	Variance
Leased ELC's	189	182	3.8%
Development sites	12	14	(14.3%)
Total ELC's	201	196	2.6%
WALE (by income) (years)	11.5	10.3	1.2yrs
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	6.84	7.31	(47bps)
Portfolio value (\$m)	482.5	413.2	16.8%
Average rental increase (%)	4.9	3.8	110bps
Rent to gross revenue ratio (%)	10.3	10.4	(10bps)
Portfolio composition (by value)			
Metropolitan (%)	54	54	-
Regional (%)	46	46	-
Purpose Built (%)	96	96	-

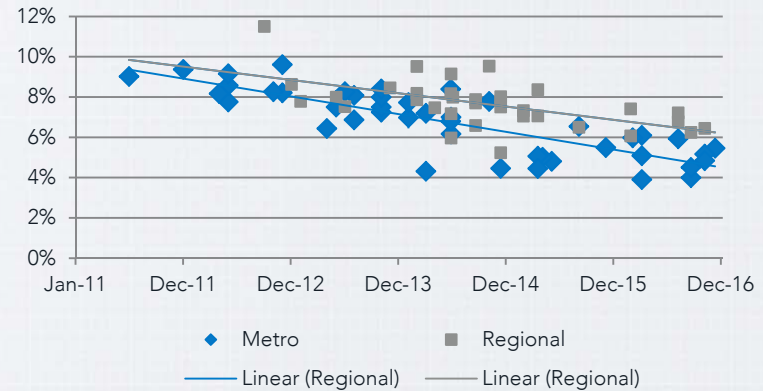


ELC property market sales evidence

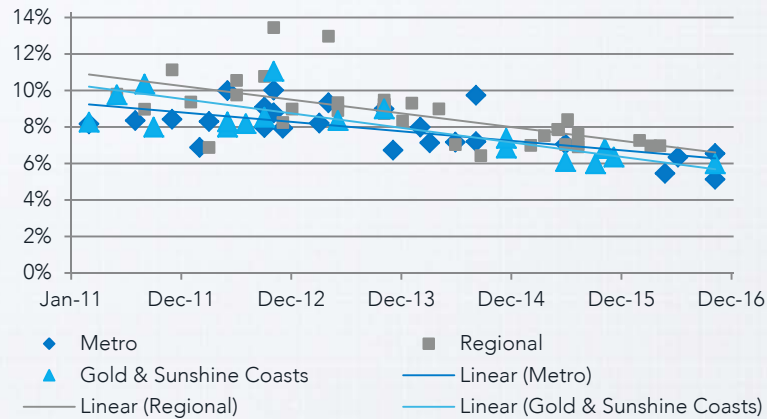
VIC passing yields



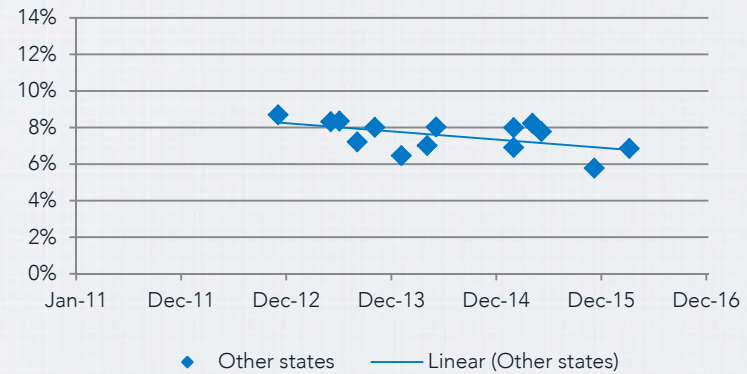
NSW passing yields



QLD passing yields

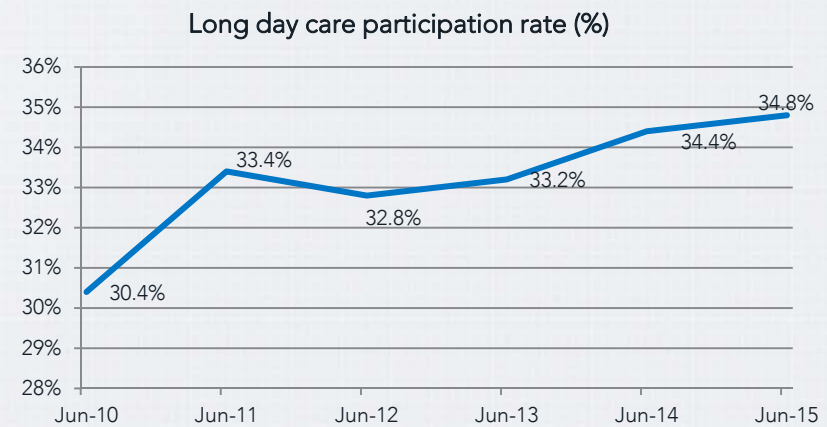
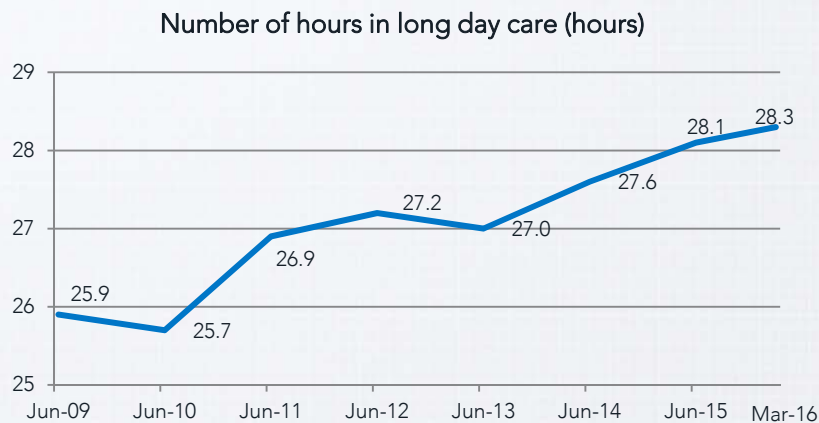
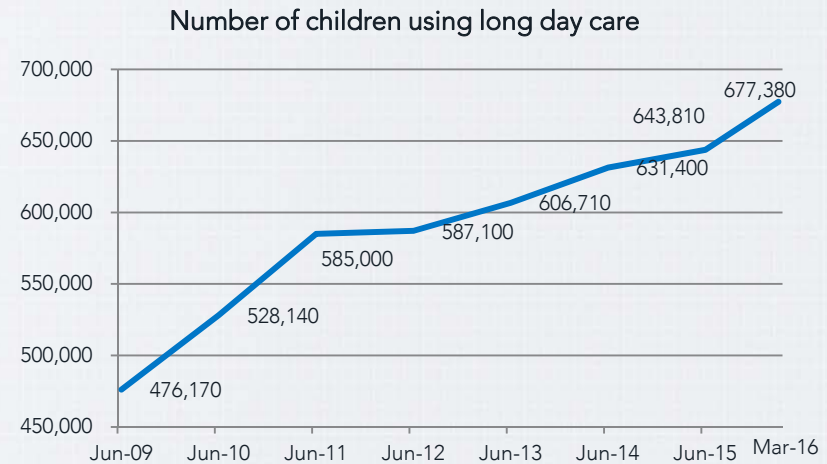
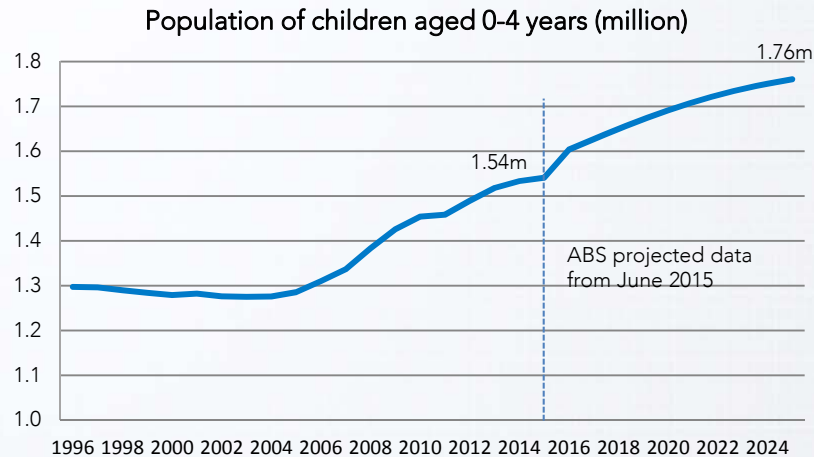


Other states passing yield



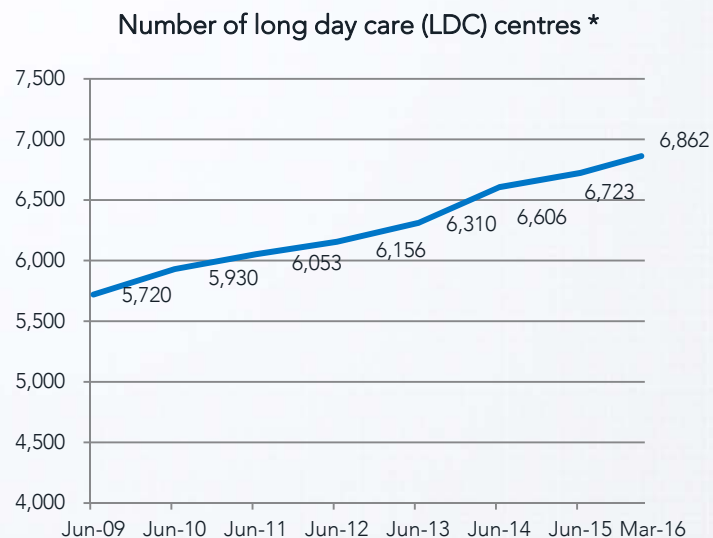
Source: Arena analysis.

ELC market dynamics – growth in population and childcare participation



Sources: ABS Statistical Reports No. 3105, No. 3101, No. 3222.
 Australian Government 'Early Childhood and Child Care in Summary' Reports 2010-2017.

ELC market dynamics – growth in long day care services



- 206 new LDC centres added in year to March 2016 (+3.1%)*
- 344 LDC centres currently in construction (June 2016: 207)^

State	LDC centres March 2016	LDC centres currently under construction ^	Potential new supply
NSW	2,838	128	4.5%
QLD	1,473	50	3.4%
VIC	1,288	114	8.9%
WA	562	16	2.8%
SA	359	16	4.5%
ACT	148	9	6.1%
TAS	117	5	4.3%
NT	77	6	7.8%
TOTAL	6,862	344	5.0%



* Australian Government 'Early Childhood and Child Care in Summary' Reports 2011-2017.

^ Cordell Connect

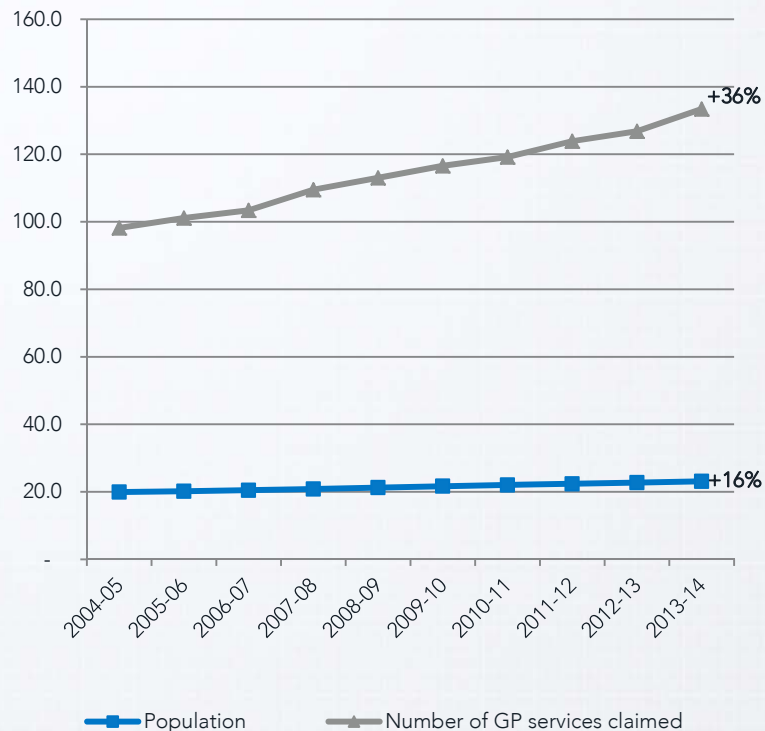
Healthcare portfolio metrics

	31 Dec 2016	30 Jun 2016	Variance
Medical centres	7	7	-
Development sites	-	-	-
Total healthcare properties	7	7	-
WALE (by income) (years)	6.0	6.5	(0.5yrs)
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	7.17	7.25	(8bps)
Property portfolio (\$m)	80.7	78.2	3.2%
Average rental increase (%)	2.6	2.6	-
Portfolio composition			
Metropolitan (by value) (%)	73	73	-
Regional (by value) (%)	27	27	-
Purpose Built (by value) (%)	100	100	-

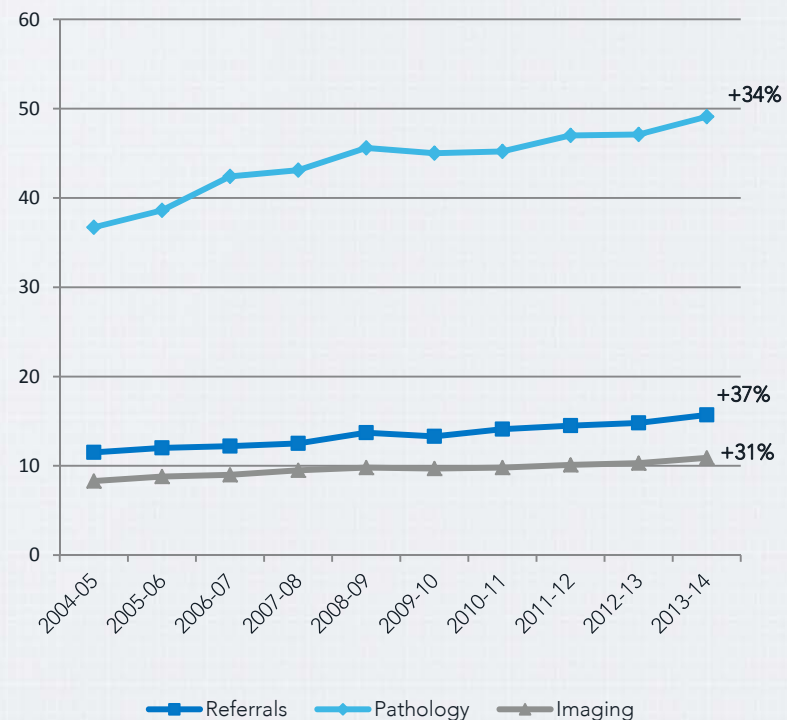


Healthcare market dynamics – increase in primary, specialist and diagnostic services

Australian population and number of GP services claimed (million)



Number of referrals, Pathology and Imaging requests per 100 GP encounters



Sources: Australian Bureau of Statistics 3101.0 Australian Demographic Statistics, The University of Sydney Family Medicine Research Centre 'A decade of Australian General Practice Activity: 2004-05 to 2013-14, General Practice Series No. 37

Important notice

This presentation has been prepared by Arena REIT (Arena) comprising Arena REIT Limited (ACN 602 365 186), Arena REIT Management Limited (ACN 600 069 761 AFSL No. 465754) as responsible entity of Arena REIT No.1 (ARSN 106 891 641) and Arena REIT No.2 (ARSN 101 067 878). The information contained in this document is current only as at 31 December 2016 or as otherwise stated herein. This document is for information purposes only and only intended for the audience to whom it is presented. This document contains selected information and should be read in conjunction with the Financial Report for the half-year ended 31 December 2016 lodged with the ASX on 20 February 2017 and other ASX announcements released from time to time. This document may not be reproduced or distributed without Arena's prior written consent. The information contained in this document is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. Arena has not considered the investment objectives, financial circumstances or particular needs of any particular recipient. You should consider your own financial situation, objectives and needs, conduct an independent investigation of, and if necessary obtain professional advice in relation to, this document.

Except as required by law, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions, or as to the reasonableness of any assumption, contained in this document. By receiving this document and to the extent permitted by law, you release Arena and its directors, officers, employees, agents, advisers and associates from any liability (including, without limitation, in respect of direct, indirect or consequential loss or damage or any loss or damage arising from negligence) arising as a result of the reliance by you or any other person on anything contained in or omitted from this document.

This document contains certain forward-looking statements along with certain forecast financial information. The words "anticipate", "believe", "expect", "project", "forecast", "guidance", "estimate", "outlook", "upside", "likely", "intend", "should", "could", "may", "target", "plan", and other similar expressions are intended to identify forward-looking statements. The forward-looking statements are made only as at the date of this document and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of Arena and its directors. Such statements reflect the current expectations of Arena concerning future results and events, and are not guarantees of future performance. Actual results or outcomes for Arena may differ materially from the anticipated results, performance or achievements expressed, projected or implied by these forward-looking statements or forecasts. Other than as required by law, although they believe that there is a reasonable basis for the forward-looking statements, neither Arena nor any other person (including any director, officer or employee of Arena or any related body corporate) gives any representation, assurance or guarantee (express or implied) that the occurrence of these events, or the results, performance or achievements expressed in or implied by any forward-looking statements in this announcement will actually occur and you are cautioned not to place undue reliance on such forward-looking statements. Risk factors (which could be unknown or unpredictable or result from a variation in the assumptions underlying the forecasts) could cause actual results to differ materially from those expressed, implied or projected in any forward-looking statements or forecast. Past performance is not an indicator or guarantee of future performance or results.

